



United States Department of Agriculture  
Farm Service Agency

## Kentucky Guaranteed Lender News

February 2015

### *Message from the State Executive Director*



John W. McCauley  
State Executive Director

The past year was certainly action packed at the Farm Service Agency. We were honored to have Secretary Tom Vilsack in Kentucky twice. First, he traveled to the mountains of southeastern Kentucky to join Governor Steve Beshear and Congressman Hal Rogers, Chair of the House Appropriations Committee, to announce that Kentucky would be joining the USDA Strikeforce Initiative. Second, the Secretary rounded out the year in Louisville visiting with our future farmers and agricultural leaders at the National FFA Convention.

I am extremely pleased with our Farm Loan Program. As an agency, we have worked hard to grow and build our Farm Loan Program as we continue to be a national leader. In 2014, Kentucky led the nation in Microloans and finished second in Youth Loan Dollars. In addition, we continued to rank high in Direct Operating Loans, Socially Disadvantaged Loans and Total Programs (both Guaranteed & Direct Loans). In the past five years, we have grown our total program by almost \$40 million. We attribute this success not only to our dedicated staff at the Farm Service Agency, but to our commercial lending partners across the Commonwealth as well as the Governor's Office of Agricultural Policy and the Kentucky Agricultural Finance Corporation.

In the spring, I look forward to holding State Executive Director Roundtable sessions with agricultural producers across this great Commonwealth. This is an opportunity for me not to bring speeches, but rather to listen to the concerns and needs of our farmers. In addition, we will partner again with the Governor's Office of Agricultural Policy and conduct Guaranteed Lender Training Sessions during the first two weeks of April.

Finally, I would be remiss if I did not stress the importance of the Agricultural Act of 2014 (The Farm Bill) and how this important legislation provides authorization for services and programs that impact every American and millions of people around the world. For the latest on the 2014 Farm Bill, please visit our Farm Bill website at [www.fsa.usda.gov/farmbill](http://www.fsa.usda.gov/farmbill).

At the Kentucky Farm Service Agency, we have 16 Farm Loan Teams and 64 FSA Service Centers across the Commonwealth ready and able to serve our farmers as we work in cooperation with our guaranteed lending partners moving Kentucky agriculture forward!

John W. McCauley

### ***Agriculture Secretary Tom Vilsack speaks to FFA Members at National FFA Convention***

More than 10,000 FFA members packed the room to hear Agriculture Secretary Tom Vilsack speak at the first general session of the National FFA Convention in Louisville, KY in October.

Vilsack identified several challenges facing American agriculture, encouraging FFA members to work toward resolving those challenges.

"FFA, you are the future of agriculture, you are the folks who can embrace these challenges, you are excited to meet them," Vilsack said.

Vilsack noted the future generation of farmers needs to include more women farmers. He asked FFA to build on that trend, pointing out that half of all FFA leadership are young women.

Today's FFA helps students prepare for careers in business, marketing, science, communications, education, horticulture, production, natural resources, forestry and many other diverse fields.





The U.S. Department of Agriculture (USDA) Farm Service Agency (FSA) Administrator Val Dolcini, with the Kentucky Delegation at the National Farm Loan Training in Nashville, Tennessee.



The U.S. Department of Agriculture (USDA) Secretary Tom Vilsack stopped by the FSA exhibit to say hello to several members of our FSA team working the National FFA Convention.

### Kentucky Farm Loan Program National Standings as of September 30, 2014

#### ***FY 2014***

- Microloans – 1st 393 loans with \$6,438,210 dollars loaned
- Direct OL loans – 5th 1373 loans with \$48,352,000 dollars loaned
- Youth loans – 3rd 246 loans and 2nd with \$1,030,750 dollars loaned
- Total loans – 6th 1860 loans with \$159,021,000 dollars loaned
- Beginning Farmer loans- 6th 955 loans with \$84,015,515 dollars loaned
- SDA loans – 4th 324 loans with \$14,530,449 dollars loaned
- Guaranteed loans obligated is 271 loans for \$72,742,413, or 45.7% of the dollars obligated
- Direct loans obligated is 1589 loans for \$86,278,830, or 54.3% of the dollars obligated

#### ***Existing Borrower Caseload***

- Direct loan borrowers – 4th 3751 borrowers and 2nd 7143 loans for an outstanding loan balance of \$303,476,380
- Youth loan borrowers – 1st 818 borrowers & 1st 883 loans for an outstanding loan balance of \$2,561,657
- Guaranteed loan borrowers – 13th 959 borrowers and 12th 1578 loans with the outstanding loan balance of \$297,188,683

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## **2014 Farm Bill Changes**

### **Entity Rule Changes**

The 2014 Farm Bill expands the types of entities that are now eligible for both direct and guaranteed type loans. These changes allow FSA to be involved with embedded entities and more flexibility in the structure of the operation. FSA still must make sure our applicant is the operator of the family farm. Our intent was not to drastically change FSA's target customer.

#### ***Certain existing rules continue to apply:***

- Family size farm
- Test for credit
- Personal liability for all members

If the entity is an operator-only entity, the individuals that own the farm (real estate) must own at least 50% of the family farm (operating entity). When dealing with an applicant who has one or more embedded entities, at least 75% of the individual ownership interests of each embedded entity must be owned by members actively involved in managing or operating family farm.

The entity must be authorized to own and operate a farm in the state or states the farm is located. If the entity members holding a majority interest are related by marriage or blood, at least one member of the entity also must operate the family farm. If the entity members holding a majority interest are not related by marriage or blood, the entity members holding a majority interest must also operate the family farm.

For further details please contact your local FSA Office or review the 2-FLP handbook. We plan to go over these changes in greater detail during our spring Guaranteed Lender Training Meetings.

### **Microloan Program – Cap Grows to \$50,000**

The Farm Service Agency (FSA) developed the Microloan (ML) program to better serve the unique financial operating needs of beginning, niche and small family farm operations. USDA raised the borrowing limit for the microloan program from \$35,000 to \$50,000, on Nov. 7, 2014. The loan features a streamlined application process built to fit the needs of new and smaller producers. This loan program will also be useful to specialty crop producers and operators of community supported agriculture (CSA).

The microloan change allows beginning, small and mid-sized farmers to access an additional \$15,000 in loans using a simplified application process with up to seven years to repay. Microloans are part of USDA's continued commitment to small and midsized farming operations. To complement the microloan program additional changes to FSA eligibility requirements will enhance beginning farmers' access to land, a key barrier to entry level producers.

FSA policies related to farm experience have changed so that other types of skills may be considered to meet the direct farming experience required for farm ownership loan eligibility. Operation or management of non-farm businesses, leadership positions while serving in the military or advanced education in an agricultural field will now count towards the experience applicants need to show when applying for farm ownership loans. Eligible applicants can apply for a maximum amount of \$50,000 to pay for initial start-up expenses such as hoop houses to extend the growing season, essential tools, irrigation and annual expenses such as seed, fertilizer, utilities, land rents, marketing, and distribution expenses. As financing needs increase, applicants can apply for a regular operating loan up to the maximum amount of \$300,000 or obtain financing from a commercial lender under FSA's Guaranteed Loan Program.

## ***Guaranteed Loan Limit***

The Farm Service Agency will not guarantee any loan that would result in the applicant's total indebtedness exceeding the limits established in Handbook 1-FLP, paragraph 29. The maximum, FO, CL, OL and LOC levels include the guaranteed loan being made plus any outstanding direct or guaranteed principal balances owed by anyone who will sign the promissory note. The dollar limit of guaranteed loans is adjusted annually based on the percentage change in the Prices Paid by Farmers Index, as compiled by USDA. The total outstanding combined guaranteed FO, CL, SW, OL, and LOC principal balance cannot exceed \$1,392,000 for fiscal year 2015. 2-FLP paragraph 244 (A).

## ***Using an Allonge for a Closed Loan when Guaranteed Funds are Unavailable***

Under certain circumstances a lender may find it necessary to close a loan that has been approved but funds are not available. These closing shall not be construed as an indicator that the guarantee is not needed. Any lender who decides to close an approved loan before funds are available should contact FSA before closing to determine whether there will be any additional closing conditions that would have been on the Conditional Commitment. Lenders should be aware that:

- The closing is at their own risk and there are circumstances that could result in FSA not issuing the guarantee once funds become available, such as any material change in the borrower's condition, financial or otherwise, since submission of the application.
- All interest accrued on the lender's loan before guaranteed loan closing (execution of the allonge), will not be covered by the guarantee.

For guaranteed loan closed prior to obligation, FSA requires borrowers to execute either a new promissory note or an allonge after obligation to establish a new closing date. The allonge also establishes the principal amount at the time the guarantee is issued. When an allonge is used, FSA will use the **allonge date** and the **principal amount** stated on the allonge to complete Form FSA-2235, "Loan Guarantee". All rules/guidance for the promissory note, applies to the allonge.

### ***Requirements for an allonge:***

Lenders may use their own allonge. FSA does not require any specific language other than the allonge must do the following:

1. Identify the promissory note which it is modifying.
2. Be signed by the borrowers as they have signed the promissory note.
3. State the principal amount and accrued interest on the loan, as of the date it is executed.
4. Include the date it is executed by the borrowers.
5. Be provided to FSA along with a copy of the original promissory note, before receiving the Loan Guarantee.

### ***If a payment has been made before issuing the guarantee:***

If the principal amount has been paid down since the promissory note was executed, the principal amount, which may be lower than the obligated loan amount, will be entered on Form FSA-2235 "Loan Guarantee" and entered into GLS.

1. If the principal has been paid down, the lender will need to modify the loan to establish a new principal amount. As a reminder, no accrued interest can be capitalized to be included in the principal, even if a payment has been made to reduce the original principal balance.
2. If the new principal balance is lower than the obligation amount, FSA will need to do a partial-NOT full-deobligation in GLS.

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## FSA Beginning Farmer Down Payment Program

FSA has a special loan program to assist Socially Disadvantaged Farmer (SDA) and beginning farmers in purchasing a farm. Retiring farmers may use this program to transfer their land to future generations.

To qualify:

- The applicant must make a cash down payment of at least 5 percent of the purchase price.
- The maximum loan amount does not exceed 45 percent of the least of (a) the purchase price of the farm to be acquired; (b) the appraised value of the farm to be acquired or; (c) \$667,000 (Note: This results in a maximum loan amount of \$300,000).
- The term of the loan is 20 years. The interest rate is 4 percent below the direct FO rate, but not lower than 1.5 percent.
- The remaining balance may be obtained from a commercial lender or private party. FSA can provide up to a 95-percent guarantee if financing is obtained from a commercial lender. Participating lenders do not have to pay a guarantee fee.
- Financing from participating lenders must have an amortization period of at least 30 years and cannot have a balloon payment due within the first 20 years of the loan.
- The applicant must be an eligible beginning farmer or socially disadvantaged farmer.
- Loan must be secured by a lien on the property being acquired with the loan funds and junior only to the party financing the balance of the purchase price.

This program allows FSA to leverage the available direct FO monies that are available to make these funds to go further. With the low interest rate available on the FSA portion of this financing combined with the interest rate of the participating lender, gives the applicant a low blended interest rate. This program also allows qualified applicants who need financing that exceeds the FSA direct statutory loan limit to meet their credit needs with a participating loan.

## 2015 Guaranteed Lender Training Meetings

FSA has scheduled five Guaranteed Lender Training sessions across the state for 2015. There is a lot of new information to discuss since our 2014 training meetings.

- Tuesday, April 7th: Clark County Cooperative Extension Office located at 1400 Fortune Drive, Winchester KY (Take Exit 96 off I-64, Turn North onto Highway 627, Turn onto Fortune Drive)
- Wednesday, April 8th: Lake Cumberland Area Development District located at 2384 Lakeway Drive Highway 80, Russell Springs, KY
- Tuesday, April 14th: Hardin County Cooperative Extension Office located at 201 Peterson Drive, Elizabethtown, KY, next to Jacobi Case-Int Equipment Sales
- Wednesday, April 15th: KY Community and Technical College located at 1127 Morgantown Road, Bowling Green, KY (Located near the Natcher Parkway on U.S. Highway 231 near Wal-Mart. The building has a glass front)
- Thursday, April 16th: Marshall County Cooperative Extension Office located at 1933 Mayfield Hwy, Benton, KY. From Purchase Parkway, take the Hardin/Murray Exit (exit 41) on to Hwy 641, at first stoplight turn right onto Hwy 58 (Mayfield Rd). Extension Office will be on the left.

All meetings will begin at 9:00 a.m. and end at approximately 12:00 noon, local time. The discussion topics will include guaranteed loan issues. Preferred and Certified Lenders are required to attend, but all agricultural lenders are encouraged to participate in these meetings.

Lenders are urged to attend the meeting closest to the location, but may attend any meeting if conflicts occur with a particular meeting date. We look forward to seeing you at one of these meetings.

## 2-FLP Handbook Revisions

### Highlights of Amendment 26 dated 04/1/2014:

- ♦ Par. 48 B amended to allow FSA service centers the option to maintain Lenders Agreement on the state's Share Point or Intranet Website.
- ♦ Par. 48 C amended to reference failure to comply with interest rate policies.
- ♦ Par. 49 F amended to provide guidance for reviewing financial strength of CLP lenders.
- ♦ Par. 50 D amended to clarify CLP lender renewal process.
- ♦ Par. 51 B amended to clarify that the authorized agency official shall develop and maintain an operational file for each CLP Lender.
- ♦ Par. 51 C amended to add reference to state failure to comply with interest rate policy can cause FSA to revoke a lender's CLP status.
- ♦ Par 52 D amended to update link to CMS and correct alphabetical sequence to the CMS summary.
- ♦ Par 54 B amended to clarify that the authorized agency official shall develop and maintain an operational file for each PLP Lender.
- ♦ Par 54 C amended to add reference to state failure to comply with the interest rate policy can cause FSA to revoke a lender's PLP status.
- ♦ Par. 83 B amended to make note of new Farm Bill Requirements for CL loans.
- ♦ Par. 108 L amended to remove reference to term limit restrictions and add a note of new Farm Bill Requirements.
- ♦ Par. 123 B amended to clarify that FO funds can be used for dwellings recognized in the community as modest after any planned improvements.
- ♦ Par. 135 B & C amended to clarify when lenders rate adjustment practices will be reviewed.
- ♦ Par. 151 B amended to clarify financial performance history must be current.
- ♦ Par. 181 C amended to include evaluations as part of loan servicing actions.
- ♦ Par. 195 amended to make note of new Farm Bill requirements for CL loans.
- ♦ Par. 247 A amended to include reference to Exhibit 11, which deals with using an allonge for loans already closed.
- ♦ Par. 247 B amended to remove reference to interest rates.
- ♦ Par. 267 B amended to add reference to when lenders interest rate policies will be reviewed.
- ♦ Par. 267 D amended to include reference to risk-based pricing practice.
- ♦ Exhibit 2 amended to note new Farm Bill requirements for beginning farmer definition.
- ♦ Exhibit 11 amended to provide instruction for using an allonge for a loan already closed by the lender when guarantee funds are not available.

### Highlights of Amendment 27 dated 09/24/2014:

- ♦ Par. 244 A has been amended to update the statutory loan limits for guaranteed loans for FY 2015.
- ♦ Par. 244 C has been amended to add clarification of accrued interest on an allonge.

## Highlights of Amendment 28 dated 11/05/2014:

- ◆ Par. 110 A has been amended to clarify the requirements for applicants who are entities.
- ◆ Par. 110 B has been amended to modify the rules for applicants applying for FO loans who are operator only entities.
- ◆ Par. 111 D and 112 B have been amended to modify rules for entity applicants who are owned by embedded entities.
- ◆ Par. 123 B has been amended to clarify when FO funds are used to purchase a farm. Only FSA applicants may be owners of the farm being purchased.
- ◆ Par. 247 A has been amended to clarify signature requirements on promissory notes when embedded entities are involved.
- ◆ Exhibit 2 has been amended as follows;
  - ◇ Embedded entity definition has been added
  - ◇ Entity definition has been modified
  - ◇ Entity member definition has been added
  - ◇ Family farm definition has been amended to clarify that family farm refers to the business operation
  - ◇ Operator definition has been amended
- ◆ Exhibit 9 has been added to provide examples of how to evaluate embedded entities.

## Highlights of Amendment 29 dated 11/6/2014:

- ◆ Par. 247 A has been amended to clarify CFR wording about signature requirements on promissory notes when embedded entities are involved.
- ◆ Exhibit 9 has been amended to correct the examples of how to evaluate embedded entities.